



International Trade Report

July 31, 2003

Japanese Beef Safeguard Dairy, Livestock & Poultry Update

Japanese Imposition of Beef Safeguard on August 1, 2003

On August 1, 2003, Japan will impose a safeguard import duty of 50 percent for chilled beef after first quarter beef imports exceeded the trigger level of 63,563 tons (see attached graphs). The higher tariff is scheduled to be in effect until March 31, 2004. Frozen beef imports have not yet reached the trigger level and thus will continue to pay 38.5 percent. With Japanese beef consumption finally recovering from the Japanese BSE scare, the increased tariffs will not aid continued improvement for imports. Despite strong opposition from exporting countries, Japanese Ministry of Agriculture, Forestry and Fisheries (MAFF) officials point out that its action is WTO consistent.

Japanese Beef Imports

In late 2001, beef consumption in Japan fell by as much as 50 percent and imports fell far below average levels of previous years as a result of BSE. Due in great part to U.S. and Australian marketing campaigns, beef consumption gradually recovered in 2002 and is now approaching pre-BSE levels. The resulting improvement in the overall beef market led to a recovery in imports that exceeded the safeguard trigger level for fresh/chilled beef during the first quarter of Japan's FY 2003/04. Japan maintains two separate safeguards, one for fresh/chilled beef and one for frozen beef imports. The safeguard trigger level is calculated using a cumulative quarterly volume comparison, but only compares current quarterly trade volumes against the prior year's corresponding import volumes. When current year, quarterly imports of either product exceed the comparable prior year's volume by 17 percent, the Government of Japan may apply a higher tariff rate until at least the end of the current Fiscal Year. The highest duty level that can be applied is 50 percent. Japanese beef imports for the first quarter of FY 2002/03 (April – March) were 54,327 tons of fresh/chilled beef and 57,811 tons for frozen beef. Thus, the trigger for April–June cumulative fresh/chilled beef imports is 63,563 tons, and for frozen beef 67,640 tons.

Flexibility in Avoiding Safeguard Tariffs

In March 2003, the Japanese Diet passed a supplementary resolution directing MAFF to “consider” market conditions in implementing the safeguard. However, the language of the resolution is vague, and MAFF argues that it does not provide a legal basis for suspending the safeguard. Article 12 of Japan's Tariff Law would seem to provide flexibility to suspend the safeguard. It allows the Japanese Cabinet to reduce or exempt tariffs on foods when import price

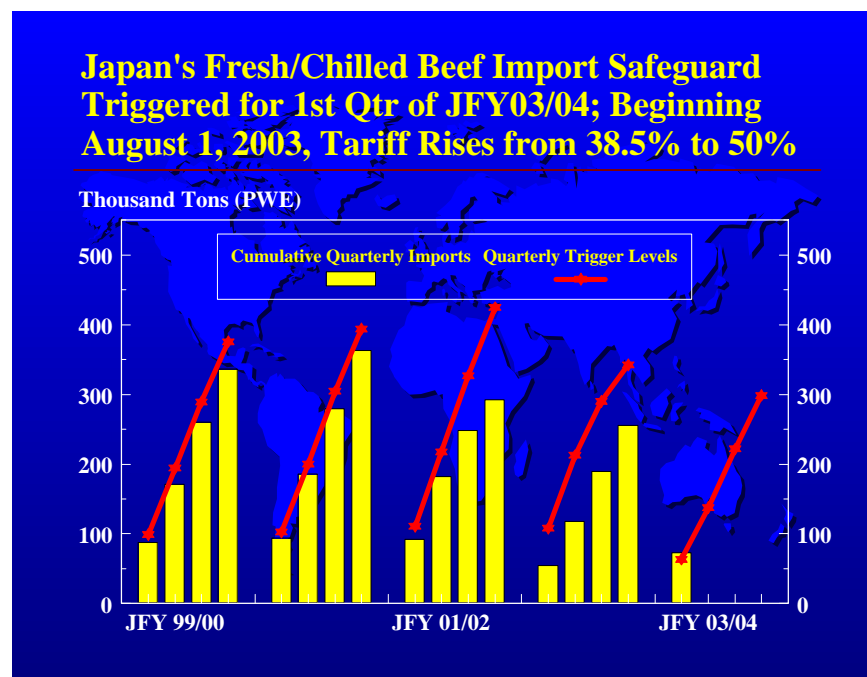
surges or expected surges affect the “stability of living.” However there are no precedents for using Article 12 to cut tariffs.

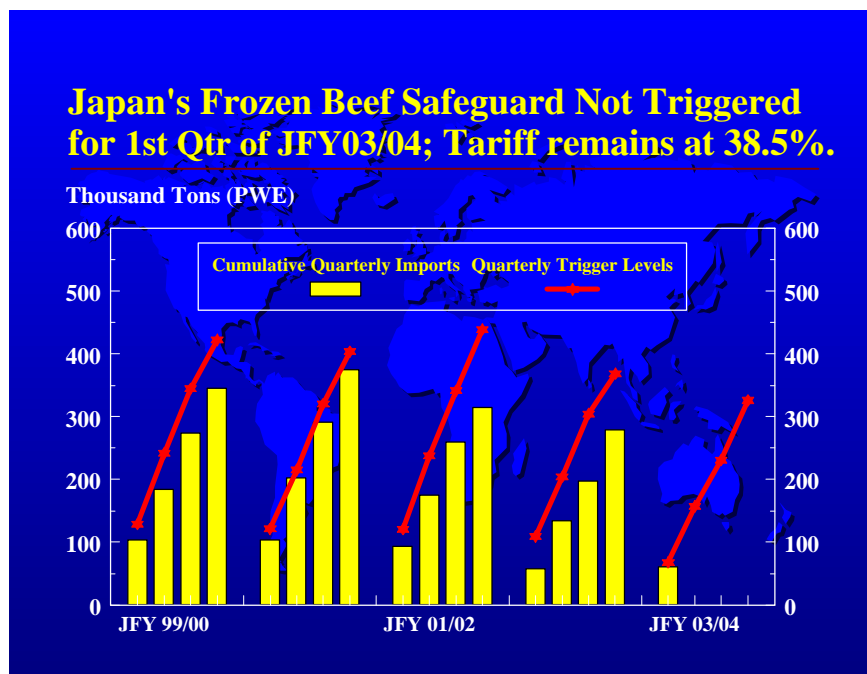
Challenges to U.S. Beef Exports

The United States exported a record \$1.46 billion of fresh, frozen and processed beef to Japan during calendar 2000. During 2001, exports dropped 15 percent to \$ 1.24 billion due to the discovery of BSE in Japan in September of 2001. In 2002, exports fell another 32 percent to \$843 million, as Japanese beef consumption plummeted in the wake of BSE.

Traditionally, the United States has shipped a product mix by volume of about 60 percent frozen and 40 percent fresh beef to Japan. In the first quarter of 2003, importers reduced imports of frozen beef to avoid triggering the safeguard. As a result, stocks have fallen and imports of fresh/chilled beef have increased. This has shifted the U.S. export product mix to 60 percent fresh and 40 percent frozen beef. This positions U.S. beef exports to have a higher percentage of exports subject to the increased tariff than in prior years. Increased competition can be expected between exporters, with the competition being especially challenging to the United States, since U.S. fresh beef prices are about 25 percent higher than Australian fresh prices and U.S. frozen beef prices are 12 percent higher than Australian frozen prices.

The average import price of chilled beef is already about twice as high as frozen beef. An increase in the tariff on chilled beef could lead some chilled beef buyers to substitute less expensive frozen beef for chilled beef. If there is significant substitution, imports of frozen beef could increase enough to trigger a safeguard action on frozen beef later in the year. However, most customers are expected to pay more if necessary so they can get the quality they want.





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